





Reply to: 1225 8th Street, Suite 595 Sacramento, CA 95814 blarson@casaweb.org

April 25, 2014

Mark Cowin, Director
California Department of Water Resources
1416 Ninth Street
Sacramento, CA 95814

Electronic mail: mark.cowin@water.ca.gov

RE: Comments on the Draft 2014 Drought Grant PSP

Dear Mr. Cowin:

We write on behalf of WateReuse California, the California Association of Sanitation Agencies, and Western Recycled Water Coalition to comment on the Proposal Solicitation Package (PSP) for the 2014 Integrated Regional Water Management (IRWM) Drought Grant Solicitation funded by Proposition 84.

California is in the midst of a historic drought, and now more than ever the state needs innovative and reliable solutions to <u>develop new water supplies</u>. Our associations surveyed water and wastewater agencies statewide and identified nearly 200,000 additional acre feet of recycled water that can be produced in California within the next three years with a \$1.3 billion investment. Others have identified similar opportunities for stormwater capture, groundwater treatment, storage and conservation.

The PSP must be revised to target water supply projects that can be financed and built in the near term. Any other use of the \$200 million in IRWM funding ignores the reality and severity of the ongoing, multi-year drought and clear directive from the Governor and the Legislature that drought response should not be 'business as usual.'

"The Department of Water Resources and the Water Board will accelerate funding for water supply enhancement projects that can break ground this year and will explore if any existing unspent funds can be repurposed to enable near-term water conservation projects."

Drought State of Emergency, Governor Edmund G. Brown, January 17, 2014

"The Legislature finds and declares that California is experiencing an unprecedented dry period and shortage of water for its citizens, local governments, agriculture, environment, and other uses. The purpose of this act is to enact urgent legislation to appropriate funds and expedite administrative actions to increase water supply reliability consistent with the state's economic, health and safety, and resource protection laws."

Senate Bill 104, Chapter 3, 2014, Section 1

The PSP Should Focus on How Much Water for How Much Money

The PSP should be streamlined to ask two fundamental questions of project applicants. How much water will your project produce or conserve? How much will it cost the state and the local project proponents?

Applications should be screened for eligibility and completeness, with points awarded for how much water will be produced, timeliness or "shovel ready" project status, and cost sharing capability of the agencies. Funds can be set aside to help disadvantaged communities benefit from recycling or conservation.

This review and scoring should replace the PSP approach of spending the \$200 million in drought relief as if this were simply the next round of Proposition 84 funding. Our organizations recognize the restrictions on the use of Proposition 84 funds, but an official State of Emergency and special legislation allocating funds grant the Department much greater flexibility in implementation than reflected in the PSP. An emphasis or weighting can be placed on the existing funding allocation criteria that call for rapid development of additional water supplies without excluding the other Proposition 84 criteria.

The current PSP approach of retaining all the same requirements and regional vetting processes may be responsive to those in the funding regions who have invested time and money pursuing the first two rounds of Proposition 84 funding, but the fact that a constituency has become invested in the typical funding scenario cannot be allowed to stand in the way of actual drought relief.

We understand the concerns of regional representatives and program staff but the question is: did the Legislature and Governor merely intend for DWR to accelerate the next \$200M of the IRWM process and fund projects already in the queue, or was it the intent to produce the very nearest term new water supplies in this drought?

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An example of the disconnect between drought relief and the application can be found in Table 9, Scoring Criteria and Standards. Of the maximum 42 total points available, only two project level points are available for this tangential reference to new water supply: "Does the applicant clearly explain how the proposed project will help alleviate the identified drought impacts?"

Our associations are willing and able to assist in revising the PSP to target the \$200 million to projects that provide new water supplies. Detailed suggestions are provided in the attachment. Thank you for your consideration of our comments.

Sincerely,

Roberta L Larson

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Roberta L. Larson, Executive Director, California Association of Sanitation Agencies

David W. Smith, Managing Director, WateReuse California

Gary W. Darling, Lead Agency, Western Recycled Water Coalition

cc: John Laird, Secretary, California Natural Resource Agency Felicia Marcus, Chair, State Water Resources Control Board Martha Guzman Aceves, Office of the Governor Gary Bardini, Deputy Director, Integrated Water Management, DWR Keith Wallace, Division of Integrated Regional Water Management, DWR

ATTACHMENT

CASA/WaterReuse CA/ WRWC

Additional Streamlining Opportunities and Requests for Clarification on the Draft Drought PSP

The attached letter provides our overarching recommendation that significant revisions occur to the PSP in order to be responsive to the directive to accelerate funding. If DWR is unable to accommodate these broad requests, this attachment provides more detailed suggestions as well as requests for clarification on the draft Drought PSP.

We appreciate that some streamlining has occurred within the PSP requirements, but more can be done. This is important because complicated applications take applicants more time and require more outside consultant help. This also requires more money from the applicant, which from past Proposition 84 applications has resulted in outside consultant costs (not counting staff time) averaging 10% of the grant award. Without significant streamlining, this \$200 million solicitation may result in an additional \$20 million spent by applicants on consultants, which many public agencies would rather invest in drought relief projects. Streamlining is especially important given that there is a 30-day turnaround time for proposals following release of the Final PSP, which is not enough time to engage consultants. Making this more of a two-step process (truly keeping this application high-level) with additional detail provided later by those who are conditionally awarded funding is a good approach.

A more simplified scoring matrix focused on drought relief and water produced or conserved, as suggested in the letter, will go a long way toward streamlining the application and the evaluation process. One suggestion is to delete or replace the Project Analysis requirement, or clarify that one (1) point will be scored simply for providing the Project Analysis information. The SB 104 language requires proposed conservation programs and measures are those that are "not locally cost-effective". The PSP states that the Project Analysis "evaluates whether the physical benefits provided by the project are provided at the least possible cost". If there were many different alternatives for producing new water, this type of analysis might make sense. As this is funding for drought relief, new water projects that provide drought preparedness and increase local water supply reliability should not have to justify that they are the least cost alternative. The Project Analysis could be replaced with a simplified "reasonableness of cost" calculation, as used by the Bureau of Reclamation in their WaterSMART competitive grant Funding Opportunity Announcements. This is simply the total project cost divided by the acre-feet of water produced or conserved, multiplied by the expected life of the project.

The basis for using a 6% discount rate, is unclear, other than this is what has been used in previous PSPs. A 6% discount rate appears high, given current government bond rates, what a government agency can obtain in interest were they to invest funds, and rate of inflation, (these have been low over the past 5+ years). While the PSP applies this discount rate to both the project costs and benefits, the question still remains on the value of completing these tables when the focus should be on drought "relief" and selecting eligible projects that are ready to proceed and can provide the local cost share. If a simplified "reasonableness of cost" comparison is used in place of the Project Analysis, then the application is simplified and the discount rate discussion is not necessary.

Remove the language on Page 20 requiring each project description to provide narrative explaining why expedited funding is needed. The projects and proposals should be about immediate drought relief and increasing water supply reliability, as directed by SB 104 and the Governor's drought declaration. DWR is the one who is required to expedite the solicitation.

Page 8 states "DWR intends to target the 2014 IRWM Drought funding to IRWM regions with the greatest drought impacts." Please clarify if this is based on some unwritten criterion to which DWR is privy, or whether it will be based on the Attachment 2 response. There should be transparency with regard to how DWR will evaluate and score proposals. Page 8 also states that DWR will evaluate proposals "based on the amounts requested". What does this mean, as this item does not appear on the Table 9 scoring criteria? Please explain or delete these mysterious evaluation references, and focus on drought relief projects.

While this Drought PSP is 26 pages less than the previous Proposition 84 PSP (38 pages versus 64), the accompanying 2014 Drought Guidelines are now 22 pages longer than the previous guidelines (101 pages versus 88). New requirements, including CASGEM monitoring, may prevent good drought relief projects from being able to pursue this funding opportunity.

With all of the limitations applied to Proposition 84 funding, DWR should do all that is within its power to develop a PSP and Guidelines that truly solicit drought "relief" projects. If DWR is too confined to deliver a drought relief solicitation, then it should be made known that this square peg in a round hole approach to "expedite" Proposition 84 funding will do little to help California's current drought emergency, and the State should consider other funding vehicles to deliver the needed drought relief projects.